



BP WEALTH

Zydus Wellness Ltd

Initiating Coverage



The Pursuit to Wellness

September 2018



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Company Background

Zydus Wellness Ltd (ZWL) the wholly owned subsidiary of Cadila Healthcare Ltd, operates into Fast Moving Consumer Goods (FMCG) space with specific focus on customer health & wellness with an aim to enrich lives of millions across the world. In the year 2008-09, ZWL was demerged from Indian pharma giant, Cadila Healthcare Ltd, promoted by Patel Family (Gujarat). It undertakes its operations from 3 manufacturing facilities—Ahmedabad & 2 units in the state of Sikkim. ZWL caters into niche wellness & health product segments vide its brands Nutralite (health foods) & Sugar free (sugar substitute). Its third brand, Everyuth, is focused towards skin care products.

Investment Rationale

Topline growth to drive earnings into new trajectory

ZWL enjoys market leader position in 4 products segments—Face Scrubs, Face Peel Offs, Sugar substitutes & Margarine spreads. In face scrubs, face peel offs & sugar substitute—market size witnessed double digit growth rates in all 4 quarters of FY18, compared to single digit growth in corresponding period of FY17. To drive topline growth, ZWL is focused on expanding market size to be able to reap the benefits of its leadership position. With a distribution reach of 8 lacs plus outlets in India, coupled with higher than industry average Advertisement & Promotions (A&P) spends to support market size expansion, ZWL is poised to improve topline growth trajectory in the coming years. We have modeled in a compounded growth of 13.9% in topline, over FY19 to FY21 on account of double digit growth witnessed in key segments in which ZWL operates in Q4 FY18.

Strong organic New Product Developments (NPD) pipeline

ZWL has launched new products in like Sugar Free Green in FY17, Neem Papaya Scrub during & Nutralite Mayonnaise in 3 flavors in FY18. Management has further launched new variant of Sugar Free Green—Veda in the first quarter of FY19, with 100% natural extracts of *Elachi*, *Tulsi*, and *lemon*.

Further, Management guidance indicate about 3-4 launches in the coming in FY19 at a quarterly run rate, reiterates ZWL's commitment to innovate niche competition-insulated product verticals. With the existing strong brand equity, distribution network & higher A&P spends to support NPD launches, ZWL is exploring new revenue contributing avenues.

Inorganic growth to boost topline further

ZWL is sitting on cash & cash equivalent and current investment, net off long term debt, to the tune of Rs.~5360 mn as on March 2018. Management has been under deliberation to drive revenue growth by way of acquisition into wellness & health space to extend product portfolio. We have not modeled in revenue/EBITDA/PAT contribution from such future acquisition.

Foray into International market to boost export revenues.

ZWL brought in management expertise in FY17 to explore the international market potential majorly in African, South East Asian & SAAR regions. Currently, ZWL exports products to 11 countries. Though export as a percentage of sales is currently low, it is set to become a sizeable portion of the topline going forward.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	1540
Target Price (Rs)	2009
BSE code	532321
NSE Symbol	ZYDUSWELL
Bloomberg	ZYWL:IN
Reuters	ZYDS.NS

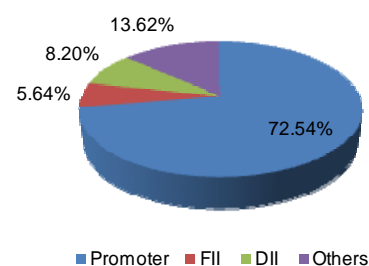
Key Data

Nifty	11,143
52 Week H/L (Rs)	1830/866
O/s Shares (Mn)	39.07
Market Cap (Bn)	60.17
Face Value (Rs)	10

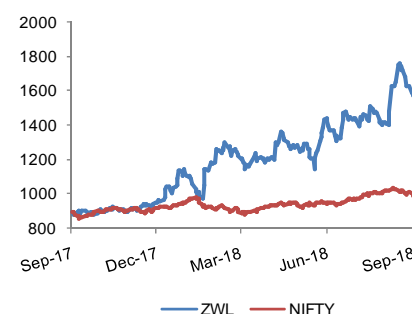
Average volume

3 months	26,600
6 months	19,930
1 year	20,780

Share Holding Pattern (%)



Relative Price Chart



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Superior working capital management & steady cash flows from operations

ZWL enjoys negative working capital cycle, improved from -4 days in FY13 to -25 days in FY18. Major reason for such improvement is improved bargaining power with creditors & superior inventory management capabilities. Also, ZWL has demonstrated a CAGR 6.6% growth in Free Cash flows to Equity (FCFE) over 5 years. We expect FCFE to grow at the rate of ~18% CAGR over FY19 to FY21 on account of improved earnings profile & no major capex plans, as iterated by the management. Improved Free cash flows would support working capital requirements w.r.t. inorganic acquisition & maintain steady historical dividend payout ratio between 25-28%.

Valuation & outlook

Zydus wellness is a niche player with a vision to develop & market consumer-driven innovation priority that will help formulate differentiated products in relatively competition-insulated spaces. With double digit segment growth in key products, inorganic growth via acquisition in pipeline & leadership position in niche segments like Sugar substitute, ZWL is poised to benefit the changing consumer preference inching towards wellness & health. With a strong free cash flows, superior brand equity, sticky consumer demand pattern & innovation led NPDs, we value ZWL at 35X FY21E EPS. We model in a blended 13.9% topline CAGR, 16.8% EBITDA CAGR & 18% PAT CAGR over 3 years period FY19 to FY21.

Key Financials									
YE March (Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenue	3,880	4,036	4,307	3,967	4,306	5,126	5,633	6,486	7,577
<i>Revenue Growth (Y-o-Y)</i>	12.2%	4.0%	6.7%	(7.9%)	8.5%	19.1%	9.9%	15.1%	16.8%
EBIDTA	966	895	999	913	991	1,253	1,442	1,712	1,996
<i>EBIDTA Growth (Y-o-Y)</i>	25.1%	(7.4%)	11.6%	(8.6%)	8.5%	26.4%	15.1%	18.7%	16.6%
Net Profit	990	983	1,112	1,052	1,113	1,365	1,618	1,914	2,242
<i>Net Profit Growth (Y-o-Y)</i>	44.4%	(0.7%)	13.1%	(5.3%)	5.7%	22.7%	18.6%	18.3%	17.1%
Diluted EPS	25.3	25.2	28.4	26.9	28.5	34.9	41.4	49.0	57.4
<i>Diluted EPS Growth (Y-o-Y)</i>	44.4%	-0.7%	13.1%	-5.3%	5.7%	22.7%	18.6%	18.3%	17.1%
No of Diluted shares (mn)	391	391	391	391	391	391	391	391	391
Key Ratios									
EBIDTA (%)	24.9%	22.2%	23.2%	23.0%	23.0%	24.4%	25.6%	26.4%	26.3%
NPM (%)	25.5%	24.4%	25.8%	26.5%	25.8%	26.6%	28.7%	29.5%	29.6%
RoE (%)	44.7%	33.8%	30.4%	23.8%	21.5%	21.9%	23.7%	21.8%	21.8%
RoCE (%)	42.0%	30.5%	26.9%	23.3%	21.7%	23.1%	23.9%	23.2%	22.4%
Tax Rate %	8.1%	5.1%	7.1%	9.9%	10.3%	8.8%	10.0%	10.5%	10.8%
Book Value Per share (Rs.)	65.7	83.3	103.9	122.5	142.6	176.9	206.9	242.3	283.8
Valuation Ratios									
P/E (x)	60.8x	61.2x	54.1x	57.2x	54.1x	44.1x	37.2x	31.4x	26.8x
P/BV (x)	23.5x	18.5x	14.8x	12.6x	10.8x	8.7x	7.4x	6.4x	5.4x
EV/EBIDTA (x)	60.3x	64.3x	56.8x	62.5x	56.5x	44.9x	38.2x	31.4x	26.1x
EV/Sales	15.0x	14.3x	13.2x	14.4x	13.0x	11.0x	9.8x	8.3x	6.9x
Market Cap./ Sales (x)	15.5x	14.9x	14.0x	15.2x	14.0x	11.7x	10.7x	9.3x	7.9x
Dividend Yield (%)	0.4%	0.4%	0.4%	0.8%	0.4%	0.5%	0.6%	0.7%	0.9%

Source: Company, BP Equities Research

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Investment Rationale

Topline growth to drive earnings into new trajectory

Zydus has witnessed steady topline growth over past 8 quarters viz FY17 & FY18. It is note worthy that sales de-grew by only 1.1% during GST rollout period i.e.Q1FY18. Main reason for such decline in the FMCG sector was destocking by the distributors. Demonetization occurred during Q3FY17. Sales grew by 0.4% during that quarter, & bounced back again in Q4FY17. Sales growth patterns witnessed during such exceptional periods reiterates that customers portray a sticky behavior towards ZWL's brands.

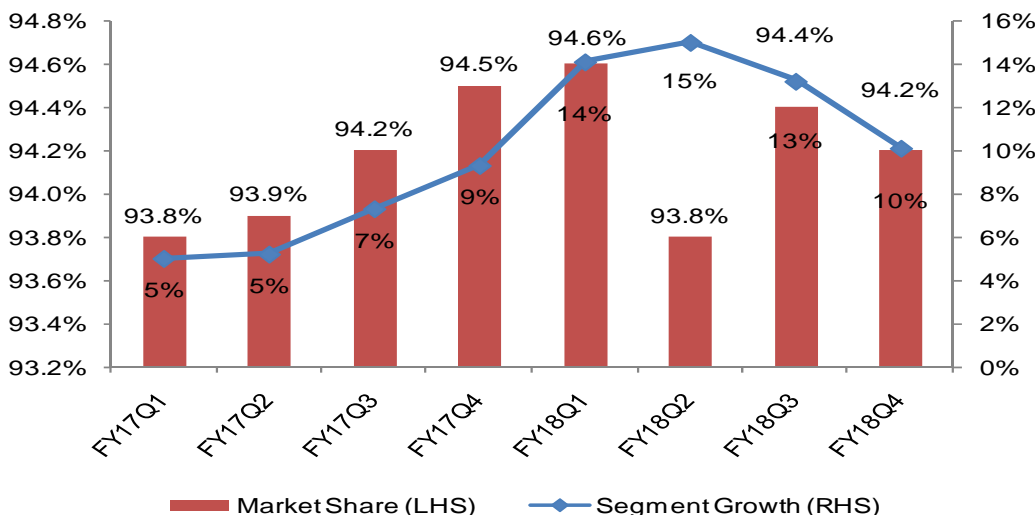
ZWL offers wellness & health products through 3 brands :-

⇒ Sugar Free

In India, 'Sugar Free' has become synonymous to the product itself — sugar substitute. ZWL enjoys ~94.2% market share at the end of FY18 by offering sugar substitutes in 3 variants — Sugar Free Natura (Sucralose based), Sugar Free Gold (Aspartame based), Sugar Free Green (Stevia leaves based).

Aspartame based & sucralose based sweeteners have been available in the market from more than a decade now, mainly used by diabetics & health conscious individuals. India is know to be diabetes capital of the world with 72.9 million people diagnosed with diabetes in the year 2017 as per International Diabetes Federation, expected to double in by the end of next decade.

Sugar Free 'Green' was launched at PAN India level in March 2017 & is made available in powder & palette forms. Green variant is accredited to be 100% natural since it is made using stevia leaves. Approved by the WHO, USFDA and FSSAI as a safe artificial sweetener, is good for all health conscious individuals (including children) and diabetics. ZWL expects to activate new customers through the new 'Green' appeal, since it enables one to cut down on calorie intake, retain the sugary taste, while using a natural product. Sugar Free Green—*Veda*, a new variant under the Green flagship has been launched in FY19, with 100% natural extracts of *Elachi*, *Tulsi*, and *lemon* to make the tabletop beverages like tea, healthy, but without the calorie.



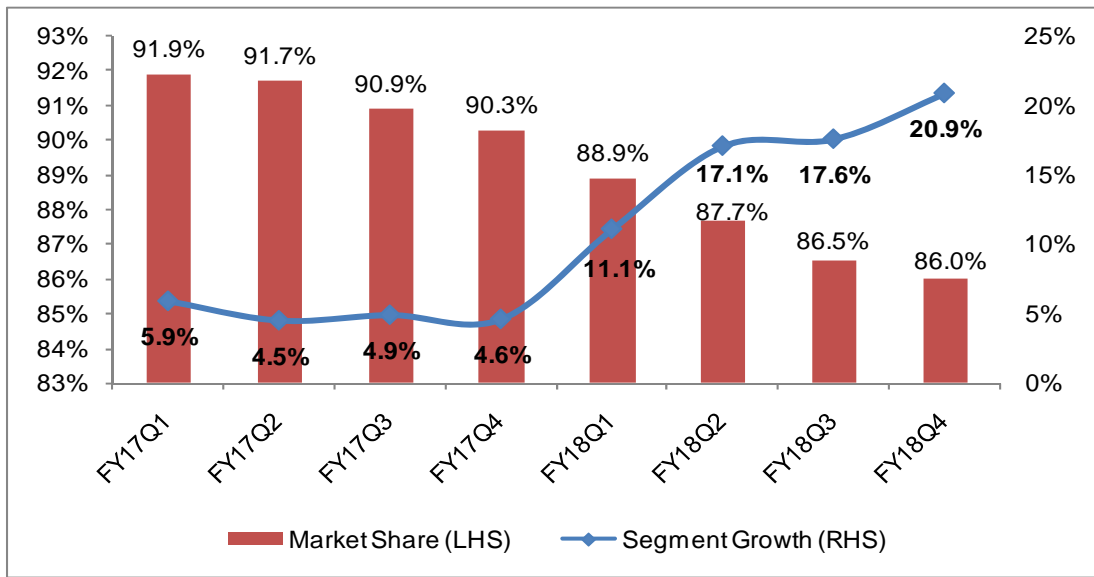
Source: Company, BP Equities Research

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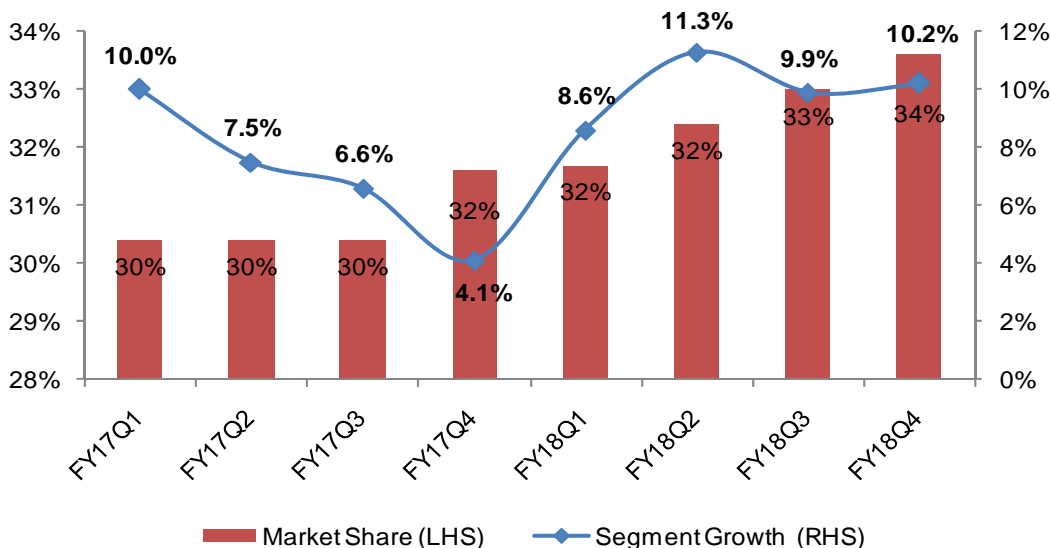
⇒ Skin Care - Everyuth

ZWL delivers skin care products under the Everyuth brand, namely—Everyuth Scrubs, Everyuth Peel-offs, Everyuth Face wash & a new offering Everyuth tan removal scrub & face pack. ZWL distributes Everyuth products through wide spread network of chemists & cosmetics as well as grocers. Everyuth is the market leader for face scrub & peel-off segments with market share of 33.6% & 86% respectively at the end of FY18. Everyuth face wash has a market share of less than 2% on account of new entrants & stiff competition in the segment. Face peel-offs segment in India has witnessed high double digit growth rate in FY18, compared to mid single digit growth in FY17. ZWL has lost market share from ~92% in FY17 to ~86% in FY18.



Source: Company, BP Equities Research

Scrub segment in India has witnessed improved market demand as witnessed from double digit growth in FY18, compared to single digit growth in later half of FY17. ZWL has strengthened its market share from ~30% in FY17 to ~33.6% in FY18, backed by innovations & efficient distribution. It has recently launched Neem Papaya Scrub for acne-prone skin in May 2017.



Source: Company, BP Equities Research

⇒ **Nutralite**

Nutralite segment offers premium table spreads. Its spreads are free from cholesterol as well as trans fats, and enriched with Omega 3 and Vitamin A, D and E – enabling families to opt for healthier spread alternatives compared to butter. On account of changing breakfast patterns, middle class population opting for healthier spread alternatives & innovative new products like salad mixers has accelerated the demand for tasty yet healthy spreads & mixes in India. Superior demand from institutional food chains over past few years have reiterated high growth outlook for the spread segment.

Nutralite offers 2 variants - Nutralite, butter substitute and Nutralite Mayonnaise, available in attractive flavors. Major revenue from Nutralite butter substitute comes from institutional sales (~70%), compared to retail segment (~30%). Nutralite 'Mayonnaise' - recently launched in Q3 of FY18, has been distributed at a PAN India level. The product market is expected to increase from current Rs.~200 to ~Rs.1200 crores by FY2022, as indicated by industry experts. It has been supported with strong mix of Print media & TV ad campaign. ZWL has roped in celebrity chef Sanjeev Kapoor, to create interactive recipe videos highlighting the applications of Nutralite mayonnaise. Sampling promotion undertaken by ZWL, would also improve customer off takes. It has grown in double digits in FY18, as indicated by the management. ZWL has also launched the product in the middle east market for the first time in the first half of FY18.

**Strong organic new products pipeline**

ZWL has been working towards in house innovation led launches. Management guidance indicate about 3-4 launches in the coming in FY19 at a quarterly run rate. These launches would be strategically promoted to take advantage of the strong brand equity of existing brands like Sugar Free, Nutralite & Everyuth & wide spread distribution reach. NPDP's like Neem Papaya Scrub & Nutralite Mayonnaise, launched in last 24 months contributed in mid-single digit to the revenue in percentage terms.

Inorganic growth to boost topline further

ZWL is sitting on cash & cash equivalent and current investment, net off long term debt to the tune of Rs.~5360 mn as on March 2018. Management has been under deliberation to drive revenue growth by way of acquisition into wellness & health space to extend product portfolio.

International Foray

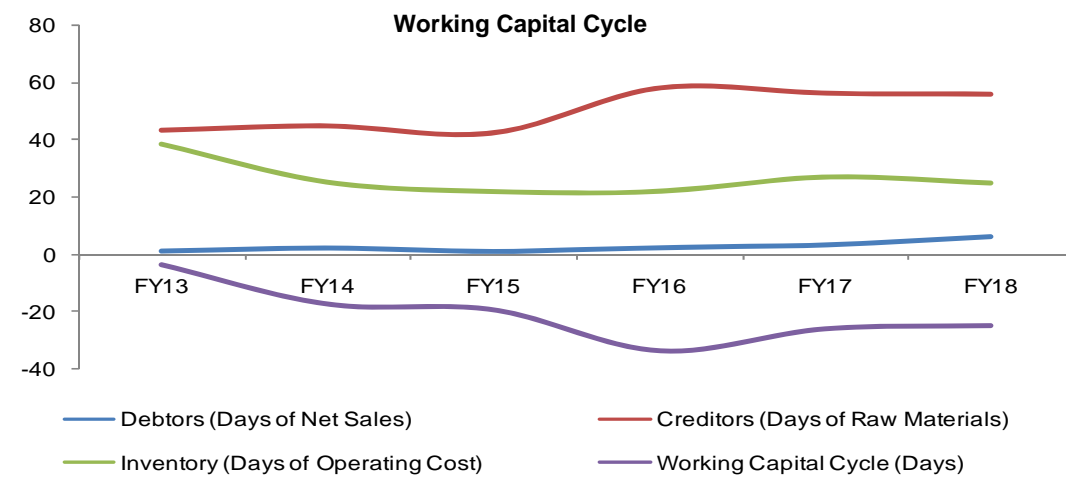
ZWL brought in management expertise in FY17 to explore the international market potential majorly in African, South East Asian & SAAR regions. By the end of FY18, ZWL exports products to 11 countries. Though export as a percentage of sales is currently low, it is set to become a sizeable portion of the topline going forward. ZWL's export strategy is region specific with Sugar free brand being the entry level product offering & further building up supply based on regional customer preferences by way of Everyuth/Nutralite offerings. ZWL plans to operate on distributors model, incur minimum capex & obtain local customer preference understanding from the local distributors. Apart from expanding exiting brands, ZWL also plans to offer exclusive products to international markets - Sugar free delight.

Superior working capital management

ZWL enjoys negative working capital cycle, improved from -4 days in FY13 to -25 days in FY18. Major improvement have been witnessed from the period FY15 to FY17. ZWL enjoys improved bargaining power with creditors & has displayed superior inventory management capabilities, post 'Enrich' program which was launched in FY14 to revamp distribution system.

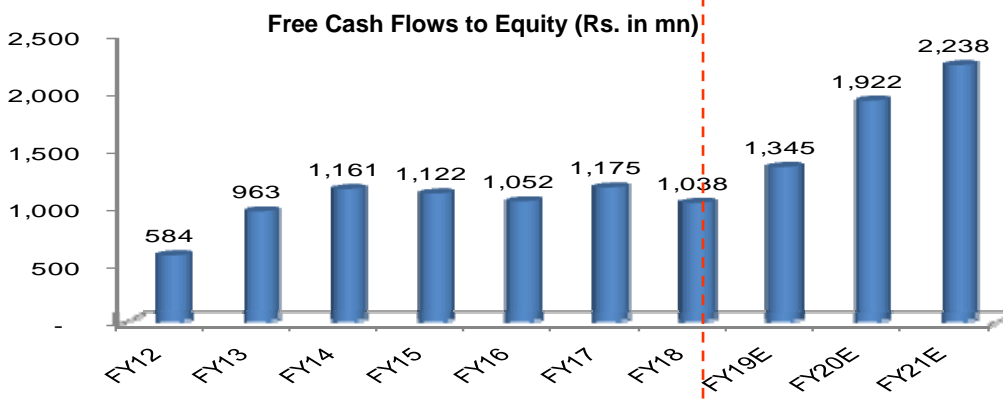
Free Cash flow to support inorganic growth & maintain dividend payout ratio

ZWL is in a steady cash generating business. Its free cash flow to equity (FCFE) has demonstrated a 6.6% CAGR over a five year period from FY14 to FY18. We expect its FCFE to grow at a ~18% CARG over FY19 to FY21 on account of improved earnings profile & no major capex plans as guided by management.



Source: Company, BP Equities Research

Year	FY13	FY14	FY15	FY16	FY17	FY18
Debtors (Days of Net Sales)	1	2	1	3	3	6
Creditors (Days of Raw Materials)	44	45	43	58	56	56
Inventory (Days of Operating Cost)	38	25	22	22	27	25
Working Capital Cycle (Days)	-4	-17	-19	-34	-26	-25



⇒ Improved FCFE to support working capital requirement w.r.t inorganic acquisition.

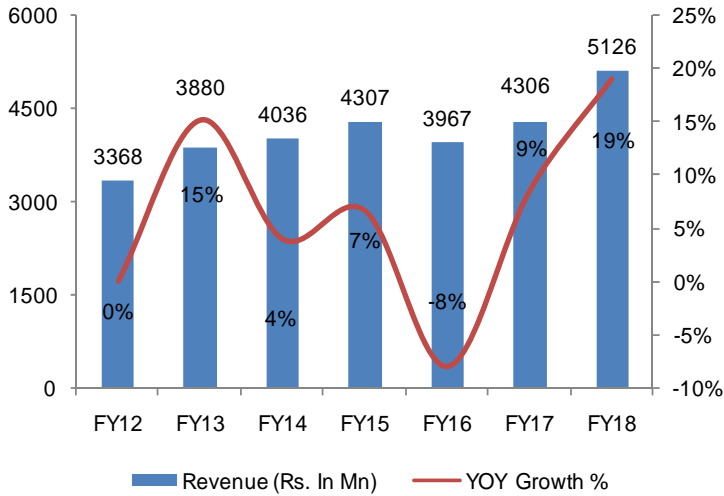
⇒ ZWL has maintained a dividend payout ratio of ~25-28% (with an exception in FY16—56%) Steadily growing free cash flows would allow ZWL to continue this trend.

Source: Company, BP Equities Research

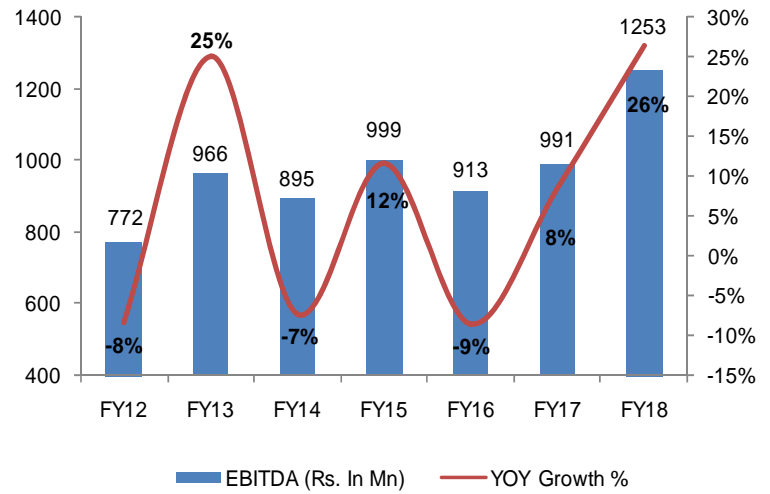
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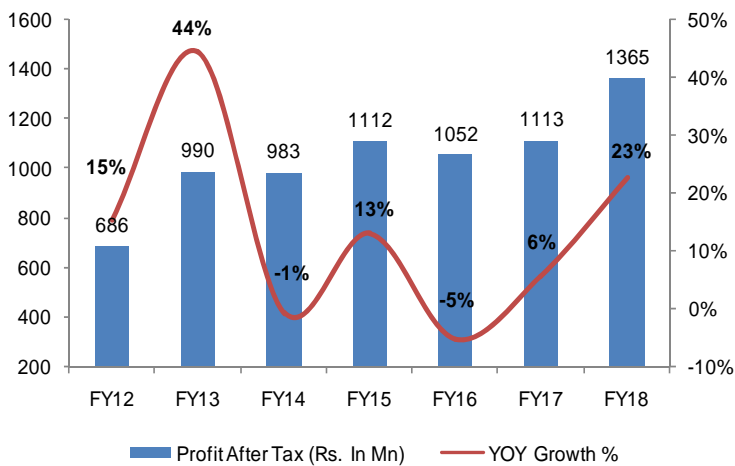
Revenue trend



EBITDA trend



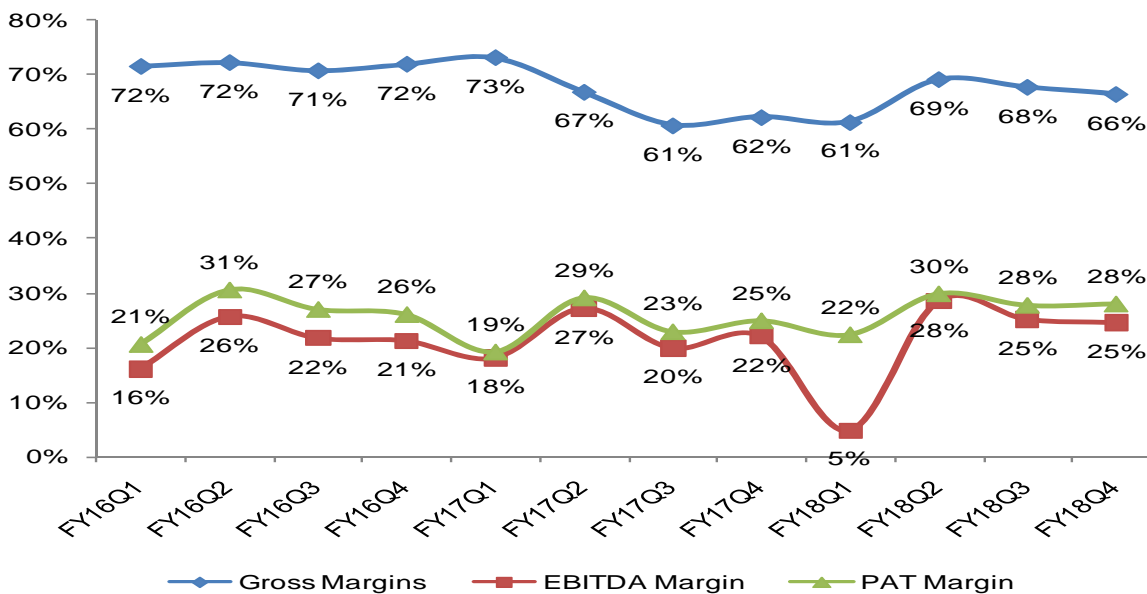
Net Profit trend



⇒ Revenue (Net) grew by CAGR of only 5.7% during the 5 year period (FY14 to FY18)

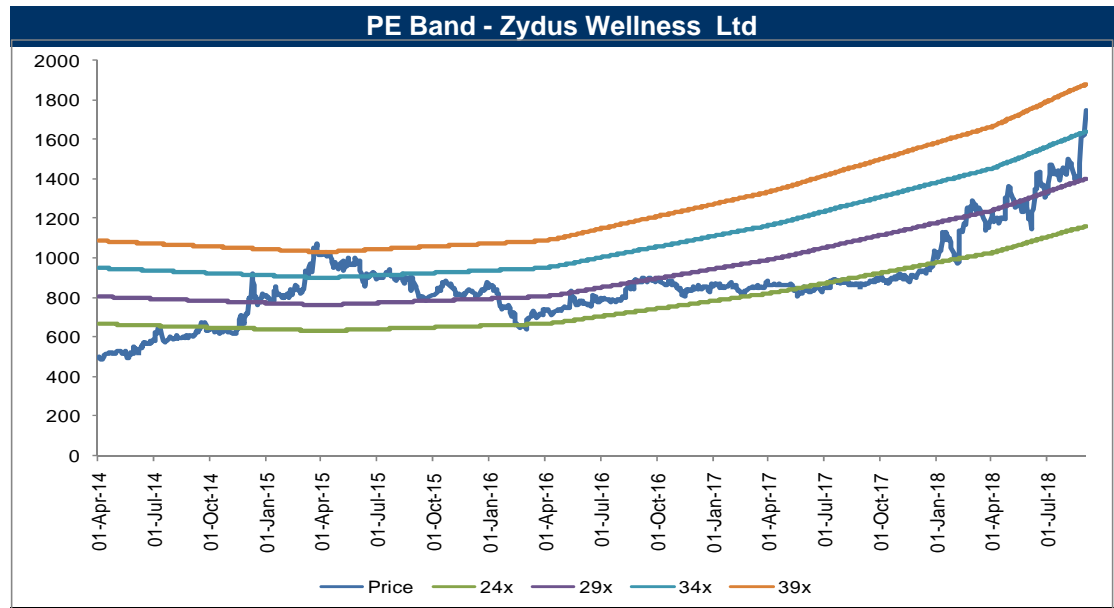
⇒ Company has made efforts to revamp its distribution reach by launching 'Enrich Program' at the end of FY16, coupled with higher than industry A&P spends to the tune of ~Rs.2,000 mn in 3 years ending FY17, which has resulted into enhanced revenue growth starting FY17 onwards.

Gross Profit / EBITDA / PAT Margins



*Adjusted margins

PE Band



Source: BP Equities Research, Ace Equity

Key Risks and concerns:

- ⇒ Discovery of new sugar substitutes like Monk fruit, which may substitute existing artificial sweetener variants marketed by Zydus may pose a potential market disruption threat.
- ⇒ Entry of competition into skin care segment like scrubs & peel offs, which have low entry barriers, may lead to loss of leadership position in all categories.
- ⇒ In wake of new product launches, failed advertisement & promotion campaigns may lead to sluggish revenue growth for ZWL.



Valuation Summary	FY21E
Zydus Wellness Ltd	
EPS	57.4
EPS Growth % (CAGR FY19-21E)	18%
Assigned PE multiple	35
Target price (Rs)	2,009
Current Market Price	1,540
Upside Potential (%)	34%

We have valued ZWL's business at 35X FY21E EPS. The assigned PE multiple is at a 20% premium to average trailing PE since 2014. Major factors that would drive ZWL's revenues & earnings higher are double digit growth witnessed in core segments, other triggers such as foray into international markets & NPD's in current brands, improved financial strength in terms of working capital management & free cash flow generation. We have not modeled in revenues & earnings that would accrue in future upon inorganic acquisition being planned by ZWL.

Valuation & Outlook

Zydus wellness is a niche player with a vision to develop & market consumer-driven innovation priority that will help formulate differentiated products in relatively competition-insulated spaces. It aspires to develop nascent sectoral spaces by educating & building awareness for its products, and their benefits. Primarily influenced by societal changes and individual lifestyle trends led by increased fitness & skin care awareness amongst youth, brands like Sugar Free, Nutralite & Everyuth are well positioned to gain from this shift of customer preference. With double digit segment growth in key products, inorganic growth via acquisition in pipeline & leadership position in niche segments like Sugar substitute, ZWL is poised to benefit from the same. With a strong free cash flow generating business, superior brand equity, sticky consumer demand pattern & innovation led new product developments, we value ZWL at 35X FY21E EPS. We model in a blended 13.9% topline CAGR, 16.8% EBITDA CAGR & 18% PAT CAGR over 3 years period FY19 to FY21.

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	Profit & Loss A/c								
YE March (Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenues	3,880	4,036	4,307	3,967	4,306	5,126	5,633	6,486	7,577
Growth %	15.2%	4.0%	6.7%	-7.9%	8.5%	19.1%	9.9%	15.1%	16.8%
Total Operating Revenue	3,880	4,036	4,307	3,967	4,306	5,126	5,633	6,486	7,577
Growth %	15.2%	4.0%	6.7%	-7.9%	8.5%	19.1%	9.9%	15.1%	16.8%
Less:									
Raw Material Consumed	866	1,239	833	809	920	1,130	1,239	1,492	1,781
Power & Fuel Cost	25	33	36	34	40	52	51	58	68
Employee Cost	273	307	342	394	455	536	620	694	777
Other Manufacturing Expenses	450	103	519	507	517	612	676	778	909
General and Administration Expenses	128	208	222	248	234	242	282	324	379
Selling and Distribution Exp	1,110	1,174	1,278	972	1,052	1,199	1,211	1,297	1,515
Miscellaneous Expenses	61	79	78	91	98	103	113	130	152
Total Operating Expenditure	2,914	3,141	3,308	3,054	3,315	3,874	4,191	4,774	5,581
EBIDTA	966	895	999	913	991	1,253	1,442	1,712	1,996
Growth %	-53.4%	-7.4%	11.6%	-8.6%	8.5%	26.4%	15.1%	18.7%	16.6%
Less: Depreciation	45	47	77	68	72	89	96	102	108
EBIT	921	849	922	845	919	1,164	1,346	1,611	1,888
Growth %	-54.7%	-7.9%	8.6%	-8.3%	8.7%	26.6%	15.7%	19.6%	17.2%
Interest Paid	1	1	1	1	6	17	19	19	20
Non-operating Income	158	189	276	324	326	351	471	548	644
Extraordinary Items	0	0	0	0	0	0	0	0	0
Profit Before tax	1,078	1,036	1,197	1,168	1,240	1,497	1,798	2,139	2,512
Tax	88	53	85	116	127	132	180	225	270
Net Profit	990	983	1,112	1,052	1,113	1,365	1,618	1,914	2,242
Adjusted Profit	990	983	1,112	1,052	1,113	1,365	1,618	1,914	2,242
Reported Diluted EPS Rs	25.3	25.2	28.4	26.9	28.5	34.9	41.4	49.0	57.4
Growth %	44.4%	-0.7%	13.1%	-5.3%	5.7%	22.7%	18.6%	18.3%	17.1%
Adjusted Diluted EPS Rs	25.3	25.2	28.4	26.9	28.5	34.9	41.4	49.0	57.4
Growth %	44.4%	-0.7%	13.1%	-5.3%	5.7%	22.7%	18.6%	18.3%	17.1%

Source: Company, BP Equities Research

	Common Sized Profit & Loss Account (Consolidated)								
YE March (Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Less:									
Raw Material Consumed	22.3%	30.7%	19.3%	20.4%	21.4%	22.0%	22.0%	23.0%	23.5%
Power & Fuel Cost	0.7%	0.8%	0.8%	0.9%	0.9%	1.0%	0.9%	0.9%	0.9%
Employee Cost	7.0%	7.6%	7.9%	9.9%	10.6%	10.5%	11.0%	10.7%	10.3%
Other Manufacturing Expenses	11.6%	2.5%	12.0%	12.8%	12.0%	11.9%	12.0%	12.0%	12.0%
General and Administration Expenses	3.3%	5.2%	5.1%	6.2%	5.4%	4.7%	5.0%	5.0%	5.0%
Selling and Distribution Expenses	28.6%	29.1%	29.7%	24.5%	24.4%	23.4%	21.5%	20.0%	20.0%
Miscellaneous Expenses	1.6%	1.9%	1.8%	2.3%	2.3%	2.0%	2.0%	2.0%	2.0%
Total Operating Expenditure	75.1%	77.8%	76.8%	77.0%	77.0%	75.6%	74.4%	73.6%	73.7%
EBIDTA	24.9%	22.2%	23.2%	23.0%	23.0%	24.4%	25.6%	26.4%	26.3%
Less: Depreciation	1.2%	1.2%	1.8%	1.7%	1.7%	1.7%	1.7%	1.6%	1.4%
EBIT	23.7%	21.0%	21.4%	21.3%	21.3%	22.7%	23.9%	24.8%	24.9%
Interest Paid	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%	0.3%	0.3%	0.3%
Non-operating Income	4.1%	4.7%	6.4%	8.2%	7.6%	6.8%	8.4%	8.4%	8.5%
Extraordinary Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Profit Before tax	27.8%	25.7%	27.8%	29.4%	28.8%	29.2%	31.9%	33.0%	33.2%
Tax	2.3%	1.3%	2.0%	2.9%	3.0%	2.6%	3.2%	3.5%	3.6%
Net Profit	25.5%	24.4%	25.8%	26.5%	25.8%	26.6%	28.7%	29.5%	29.6%
Adjusted Profit	25.5%	24.4%	25.8%	26.5%	25.8%	26.6%	28.7%	29.5%	29.6%

Source: Company, BP Equities Research



Zydus Wellness Ltd.

Initiating Coverage

Balance Sheet (Consolidated)

YE March(Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Liabilities									
Equity Capital	391	391	391	391	391	391	391	391	391
Share application money pending allotment	0	0	0	0	0	0	0	0	0
Reserves & Surplus	2,175	2,865	3,670	4,395	5,181	6,521	7,692	9,076	10,697
Equity	2,565	3,256	4,060	4,786	5,572	6,912	8,082	9,467	11,088
Preference Share Capital	0	0	0	0	0	0	0	0	0
Net Worth	2,565	3,256	4,060	4,786	5,572	6,912	8,082	9,467	11,088
Minority Interest	29	47	69	86	106	132	132	132	132
Net Deferred tax liability/(Asset)	47	57	52	51	(550)	(712)	(712)	(712)	(712)
Total Loans	0	0	0	0	250	250	250	250	250
Capital Employed	2,641	3,359	4,181	4,923	5,377	6,581	7,752	9,136	10,758
Assets									
Gross Block	1,103	1,160	1,129	1,173	1,445	1,544	1,644	1,744	1,844
Less: Depreciation	161	206	285	352	419	505	601	703	811
Net Block	943	954	844	821	1,025	1,039	1,043	1,041	1,033
Capital WIP	0	0	2	2	1	2	2	2	2
Long Term Loans & Advances	135	260	381	526	67	31	31	31	31
Non Current Investments	0	0	0	0	6	6	6	6	6
Current Assets									
Inventories	409	279	260	240	319	351	401	462	540
Sundry Debtors	15	26	15	28	40	88	93	107	125
Cash and Bank Balance	1,908	2,628	3,390	3,045	4,402	4,137	5,307	6,702	8,352
Loans and Advances	80	47	183	72	91	411	282	324	379
Other Current Assets	3	4	3	3	10	8	9	11	12
Total Current Assets	2,414	3,034	3,851	4,330	5,162	6,470	7,567	9,081	10,883
Less: Current Liabilities & Provisions									
Sundry Creditors	462	498	503	632	665	787	643	732	856
Provisions	300	279	288	12	13	32	84	97	114
Other Current Liabilities	88	113	107	111	206	149	169	195	227
Total Current Liabilities & Provisions	851	889	898	755	885	967	897	1,024	1,197
Net Current Assets	1,564	2,145	2,954	3,575	4,278	5,504	6,670	8,057	9,686
Miscellaneous Assets	0	0	0	0	0	0	0	0	0
Capital Applied	2,641	3,359	4,181	4,923	5,377	6,581	7,752	9,136	10,758

Source: Company, BP Equities Research



Zydus Wellness Ltd.

Initiating Coverage

YE March (Rs. Mn)	Cash Flows (Consolidated)								
	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PAT	990.3	983.1	1,111.5	1,052.4	1,112.8	1,365.1	1,618.3	1,914.3	2,242.1
Less: Non Operating Income	(157.9)	(189.0)	(275.9)	(324.2)	(326.4)	(350.6)	(470.8)	(547.6)	(643.7)
Add: Depreciation	45.0	46.5	77.3	68.1	71.6	88.8	96.0	101.9	107.7
Add: Interest Paid	1.0	1.3	1.3	1.4	5.5	17.0	18.8	19.4	19.8
Operating Profit before Working Capital Changes	878.4	841.9	914.2	797.7	863.5	1,120.3	1,262.3	1,487.9	1,725.9
(Inc)/Dec in Current Assets	(20.6)	21.0	(124.6)	98.6	(39.1)	(365.4)	123.7	(58.1)	(74.2)
Inc/(Dec) in Current Liabilities	108.1	38.9	8.5	(143.0)	129.7	82.3	(70.4)	127.8	172.9
Changes in Inventory	(134.5)	129.2	19.5	19.9	(78.8)	(31.8)	(50.7)	(60.8)	(77.7)
Net Cash Generated From Operations	831.4	1,031.0	817.6	773.2	875.3	805.4	1,265.0	1,496.8	1,746.9
Cash Flow from Investing Activities									
(Inc)/Dec in Fixed Assets	(25.5)	(57.3)	31.9	(44.4)	(271.6)	(99.7)	(100.0)	(100.0)	(100.0)
(Inc)/Dec in Capital Work In Progress	0.0	(0.3)	(2.1)	0.5	0.6	(1.1)	0.4	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	(88.0)	(125.4)	(121.4)	(144.3)	458.4	36.5	0.0	0.0	0.0
Add: Non Operating Income	157.9	189.0	275.9	324.2	326.4	350.6	470.8	547.6	643.7
(Inc)/Dec in Current Assets	0.0	(50.0)	50.0	(941.6)	635.8	(1,175.7)	0.0	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	44.4	(44.0)	234.3	(805.6)	1,149.6	(889.4)	371.2	447.6	543.7
Cash Flow from Financing Activities									
Inc/(Dec) in Total Loans	(6.5)	9.7	(4.3)	(1.4)	(351.1)	(161.8)	0.0	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(19.2)	(18.6)	(24.6)	260.6	(20.8)	351.1	0.0	0.0	0.0
Changes in Minority Interest	19.2	18.6	21.5	17.8	19.1	26.1	0.0	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(234.4)	(234.4)	(234.4)	(488.4)	(254.0)	(312.6)	(372.2)	(440.3)	(515.7)
Tax Paid on Dividend	(39.9)	(39.9)	(47.7)	(99.4)	(51.7)	(63.6)	(75.7)	(89.6)	(104.9)
Less: Interest Paid	(1.0)	(1.3)	(1.3)	(1.4)	(5.5)	(17.0)	(18.8)	(19.4)	(19.8)
Adjustments	(1.2)	(0.7)	0.9	(0.4)	(4.6)	(2.6)	(0.0)	0.0	0.0
Net Cash Flow from Financing Activities	(283.0)	(266.6)	(289.9)	(312.6)	(668.6)	(180.4)	(466.7)	(549.3)	(640.4)
Net Inc/Dec in cash equivalents	592.8	720.4	762.0	(345.0)	1,356.3	(264.4)	1,169.5	1,395.2	1,650.2
Opening Balance	1,315.1	1,907.9	2,628.3	3,390.3	3,045.3	4,401.6	4,137.2	5,306.7	6,701.9
Closing Balance Cash and Cash Equivalents	1,907.9	2,628.3	3,390.3	3,045.3	4,401.6	4,137.2	5,306.7	6,701.9	8,352.1

Source: Company, BP Equities Research



Zydus Wellness Ltd.

Initiating Coverage

Key Ratios (Consolidated)

YE March (Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Key Operating Ratios									
EBITDA Margin (%)	24.9%	22.2%	23.2%	23.0%	23.0%	24.4%	25.6%	26.4%	26.3%
Tax / PBT (%)	8.1%	5.1%	7.1%	9.9%	10.3%	8.8%	10.0%	10.5%	10.8%
Net Profit Margin (%)	25.5%	24.4%	25.8%	26.5%	25.8%	26.6%	28.7%	29.5%	29.6%
RoE (%)	44.7%	33.8%	30.4%	23.8%	21.5%	21.9%	23.7%	21.8%	21.8%
RoCE (%)	43.6%	40.3%	28.3%	24.5%	18.6%	17.8%	17.8%	20.5%	19.1%
Core ROCE (%)	42.0%	30.5%	26.9%	23.3%	21.7%	23.1%	23.9%	23.2%	22.4%
Current Ratio (x)	2.8x	3.4x	4.3x	5.7x	4.5x	5.3x	8.4x	8.9x	9.1x
Dividend Payout (%)	27.7%	27.9%	25.4%	55.9%	27.5%	27.6%	27.7%	27.7%	27.7%
Book Value Per Share (Rs.)	65.7	83.3	103.9	122.5	142.6	176.9	206.9	242.3	283.8

Financial Leverage Ratios

Net Debt/ Equity (x)	-0.7x	(0.8)	(0.8)	(0.6)	(0.7)	(0.6)	(0.6)	(0.7)	(0.7)
Interest Coverage (x)	966.2x	688.5x	768.6x	652.4x	180.1x	73.7x	76.9x	88.4x	101.1x
Interest / Debt (%)	-	-	-	-	4.4%	6.8%	7.5%	7.8%	7.9%

Growth Indicators %

Growth in Gross Block (%)	2.4%	5.2%	(2.7%)	3.9%	23.2%	6.9%	13.8%	6.1%	5.7%
Sales Growth (%)	15.2%	4.0%	6.7%	(7.9%)	8.5%	19.1%	11.8%	15.1%	16.8%
EBITDA Growth (%)	25.1%	(7.4%)	11.6%	(8.6%)	8.5%	26.4%	15.1%	18.7%	16.6%
Net Profit Growth (%)	44.4%	(0.7%)	13.1%	(5.3%)	5.7%	22.7%	18.6%	18.3%	17.1%
Diluted EPS Growth (%)	44.4%	(0.7%)	13.1%	(5.3%)	5.7%	22.7%	22.8%	18.3%	17.1%

Cash Flows

Cash Flow from Operations	831	1031	818	773	875	805	1265	1497	1747
Free Cash Flows to Equity	963	1161	1122	1052	1175	1038	1303	1925	2271

Turnover Ratios

Debtors (Days of Net Sales)	1	2	1	3	3	6	6	6	6
Creditors (Days of Raw Materials)	44	45	43	58	56	56	56	56	56
Inventory (Days of Optg Costs)	38	25	22	22	27	25	26	26	26
Working Capital Cycle (Days)	(4)	(17)	(19)	(34)	(26)	(25)	(24)	(24)	(24)

Source: Company, BP Equities Research



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